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TREASURY FOR JONATHAN ROSE
NSC FOR MATT PALMER

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SUBJECT: TURKISH PRESIDENT'S STATISM SHOWS

REF: A. ANKARA 5723

[1](#)B. ANKARA 5735

Classified By: ECON/C TOM GOLDBERGER. REASONS 1.4 (B) AND (D).

[1](#)1. (C) Summary: In addition to venting inflammatory rhetoric on social and political issues (refs), Turkish President Sezer used his October 1 opening speech to Parliament to reiterate the statist economic philosophy he shares with Turkey's opposition parties and other elements of the "deep state" that have seen their economic and political control and prerogatives undermined by four years of AKP-engineered free market reforms. The unprecedented reforms the AKP government has pushed through thanks to its control of parliament have brought Turkey its first period of real economic stability and set the stage for its potential economic catch-up with the rest of Europe. A return to statism would be a disaster not only for Turkey and its EU aspirations but for Turkey's ability to function as a reliable ally that helps the U.S. meet its policy objectives in the region. End Summary.

Sezer (Again) Lays out his Statist Economic Vision

[1](#)2. (SBU) Deep in Sezer's hour-and-a-half speech to the opening of Parliament, the Turkish President reiterated deeply-held statist views on economic policy. Though he attached importance to economic development, his main theme was distrust of privatization and "foreignization" of the economy, with comments like, "In the name of globalization, international monopolist capital's effective control of the domestic market through privatization ... will actually harm the national economy." He criticized privatizing public institutions "without any cost-benefit analysis," saying it harmed the principle of the "social state" and rapidly turned into "foreignization." Sezer referred to an alleged increased incidence in other countries of "preventing the sale of strategic establishments to foreigners" and called on Turks to be more careful. As he did last spring in his justification of his veto of the social security reform that is a critical part of Turkey's IMF program and future stability, Sezer emphasized the principle of the "social state" which he claims is defined in the Constitution.

[1](#)3. (C) Such comments are consistent with Sezer's actions on economic policy over the years, which have been consistently anti-market, anti-reform, anti-privatization, and anti-foreign investment. Nor has Sezer used economic arguments to buttress his vetoes or statements. For example,

he based the veto of the social security reform on the "rights" of pensioners and on the principle of the social state, without any consideration of how the social security system would stop its fiscal hemorrhaging. Another example was his veto of an AKP-sponsored bill allowing foreign majority ownership of media groups, which contributed to the continued domination of the media by a single entrenched group.

14. (C) Sezer seems to see economics entirely through the nationalistic, political, statist prism that has long prevailed among Turkey's establishment of politicians, military officers and judges with the exceptions of the Ozal Government in the 1980's, the reforms immediately after the 2001 crisis, and four years of AK Party rule. All opposition parties are strident in their criticism of privatization, foreign investment, the IMF, fiscally-responsible reforms (like social security) and advocate state intervention rather than market-driven policies. The judiciary, from whose ranks Sezer comes, as part of the secular Kemalist establishment, is a bastion of statism and anti-foreign investment sentiment: Turkish courts) in particular, the administrative review court (the Danistay) - have repeatedly tried to derail privatizations on narrow technicalities. As for the military)- in addition to commenting on broad political issues)- they are not averse sharing their economic opinions. In a recent speech Naval Commander Karahanoglu's said the opposite of Kemalist nationalism is "the religious nation, advocating Sharia, imperialism, and global capitalism."

Why AKP is Different

5.(C) The contrast between old-line Kemalists and the AKP's pro-reform track record is striking. By next year's parliamentary elections, AKP will have provided five years of stable, one-party government, with generally orthodox, pro-reform policies that created a framework for post-crisis stabilization, record growth, and a take-off in Foreign Direct Investment.

16. (C) In a way, this pro-reform track record is surprising, given the Islamist party origins of the AKP leadership. In another way, however, the pro-reform track record is understandable on domestic political grounds: after decades building up a protected, statist economy, the bureaucratic-judicial-military establishment had created a network of controls and prerogatives that AKP was happy to dismantle. AKP's constituents tend to be ordinary Turks, often with Anatolian roots, and small businessmen and traders who derived little benefit from the state companies' dominant positions and only stand to gain from privatization and foreign investment. In much the same way, AKP pushed through social security reform, in part because the group whose pensions would take the biggest hit were high-ranking civil servants, hardly an AKP constituency. Whether in its efforts to decentralize power to municipalities, or in its dilution of the powers of the Financial Inspectors, AKP has used the reform process break up the tight, centralized control of what is commonly called "the deep state" to weaken the establishment's administrative and economic power.

17. (SBU) Indeed, AKP's pro-market orientation has gone beyond the minimum the IMF has required, particularly with regard to courting foreign investors and privatizing flagship state companies even after Turkey had largely recovered from the crisis. PM Erdogan several times has pointedly stood up for privatization and foreign investment even though their unpopularity is used aggressively by the opposition as a political club against AKP. Much as AKP has used the EU accession process to dilute the military's pervasive influence, Erdogan's pro-market policies strengthen his hand against the state establishment.

AKP Economic Policies and the U.S. Interest

18. (C) This dynamic underlines the high-stakes of the political game currently being played out as the old-line bureaucratic-military-judicial establishment fights for its life. Its last bastion has been the office of the Presidency, which Sezer has used (many say abused) by employing his limited veto powers to block market-oriented reforms. Still the outcome of the game is far from certain and the so-called "deep state" (made up of those who underpin the hard-line Kemalists) has not yet used all the tools at its disposal. This "political risk" hanging over the economy goes a long way to explain the extraordinary premiums investors demand in Turkey as real interest rates currently approach 13-14%. If the November 2007 parliamentary elections result in the end of single-party government, backsliding on economic reform is to be expected. From best to worst in terms of implications for economic policy, there are roughly three scenarios: a single-party AKP government; a coalition including AKP; and a coalition without AKP. Market analysts are unanimous in their view that a coalition government would be very bad for economic policy. Historically, coalition governments in Turkey have been prone to the kind of lowest-common-denominator, log-rolling economic policy-making that made the 1990's a "lost decade" for the Turkish economy and culminated in the 2001 crisis.

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